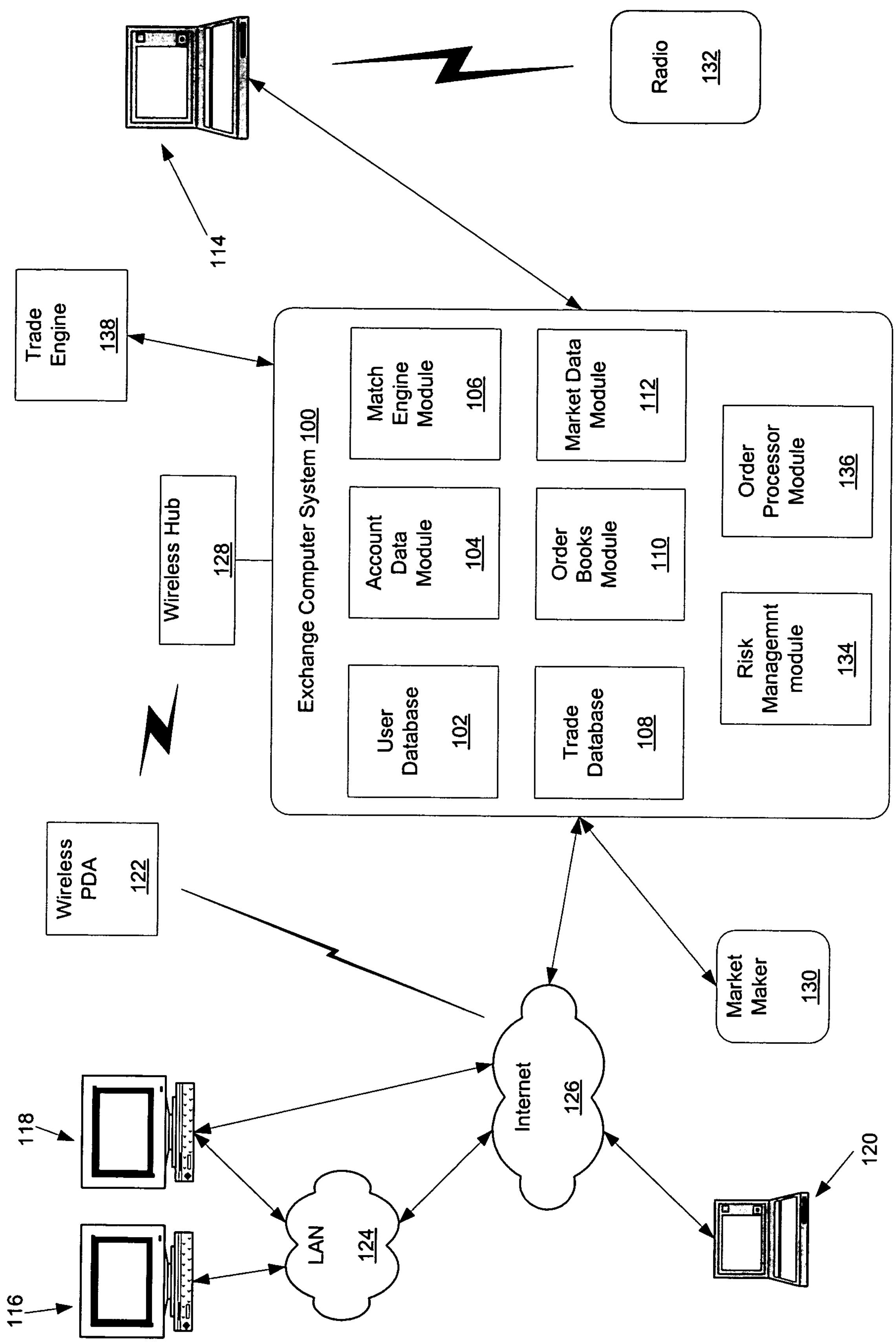

Figure 1

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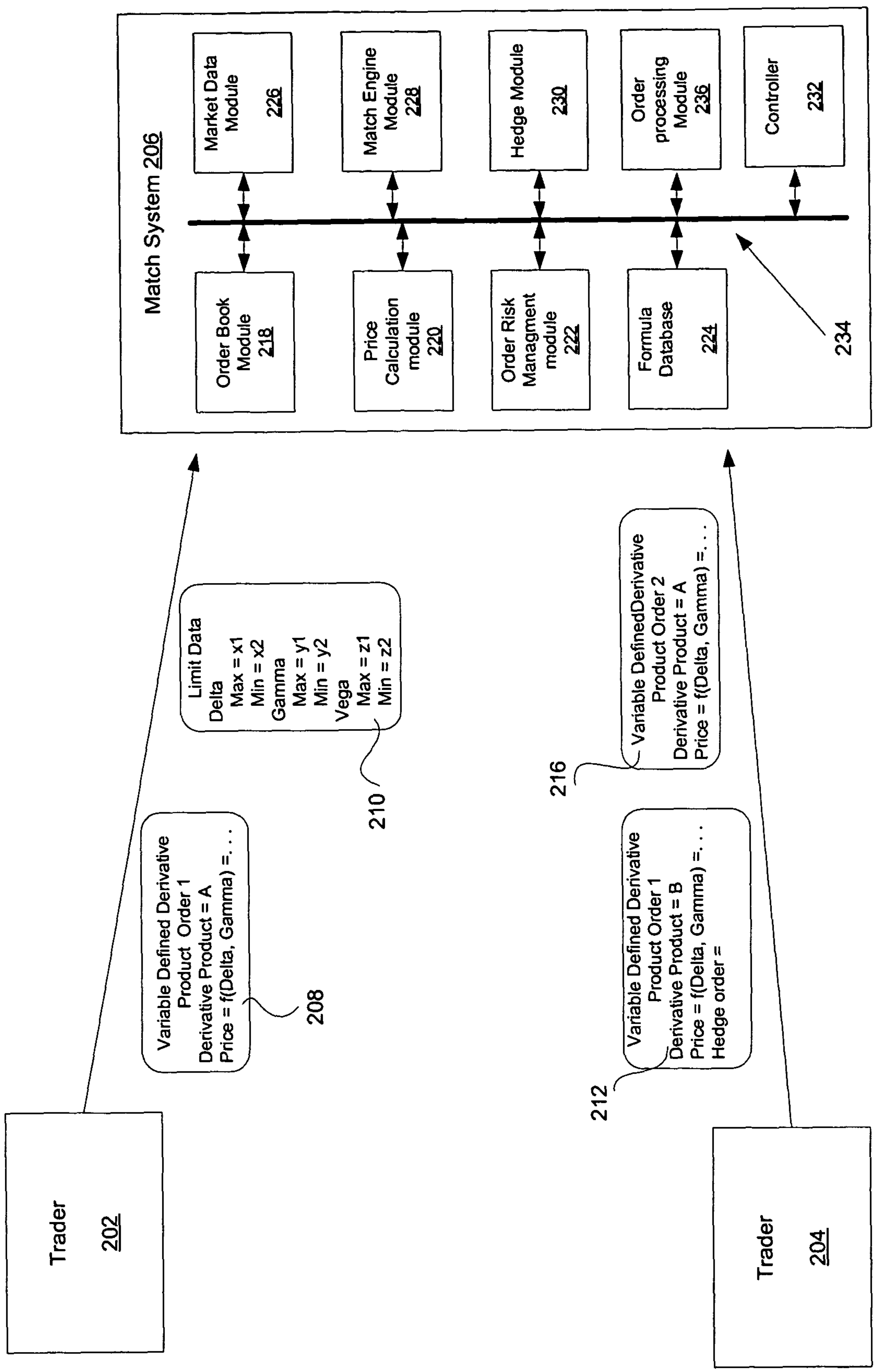
Charles L. Miller
DERIVATIVES TRADING METHODS THAT USE A VARIABLE ORDER PRICE AND A HEDGE TRANSACTION
Attorney Docket: 06119.00007



Match System 206
Order Book Module 218
Market Data Module 226
Price Calculation module 220
Match Engine Module 228
Order Risk Managment module 222
Hedge Module 230
Formula Database 224
Order processing Module 236
Controller 232
234
Limit Data
Delta
Max = x1
Min = x2
Gamma
Max = y1
Min = y2
Vega
Max = z1
Min = z2
210
Variable Defined Derivative Product Order 1
Derivative Product = A
Price = f(Delta, Gamma) =. . .
208
Variable DefinedDerivative Product Order 2
Derivative Product = A
Price = f(Delta, Gamma) =. . .
216
Variable Defined Derivative Product Order 1
Derivative Product = B
Price = f(Delta, Gamma) =. . .
Hedge order =
212
Trader 202
Trader 204

Figure 2

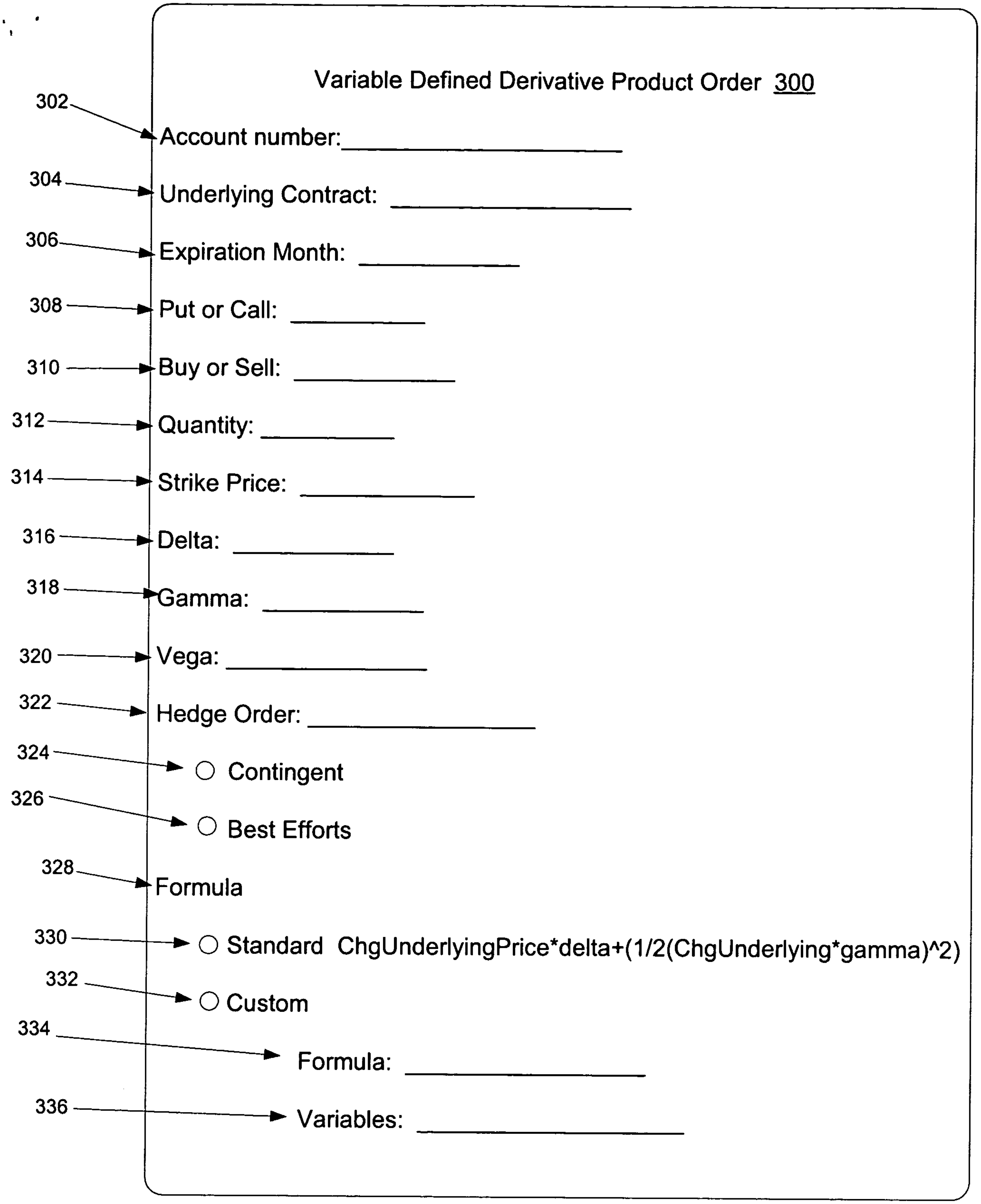

Variable Defined Derivative Product Order 300
302
Account number:
304
Underlying Contract:
306
Expiration Month:
308
Put or Call:
310
Buy or Sell:
312
Quantity:
314
Strike Price:
316
Delta:
318
Gamma:
320
Vega:
322
Hedge Order:
324
Contingent
326
Best Efforts
328
Formula
330
Standard ChgUnderlyingPrice*delta+(1/2(ChgUnderlying*gamma)^2)
332
Custom
334
Formula:
336
Variables:

Figure 3

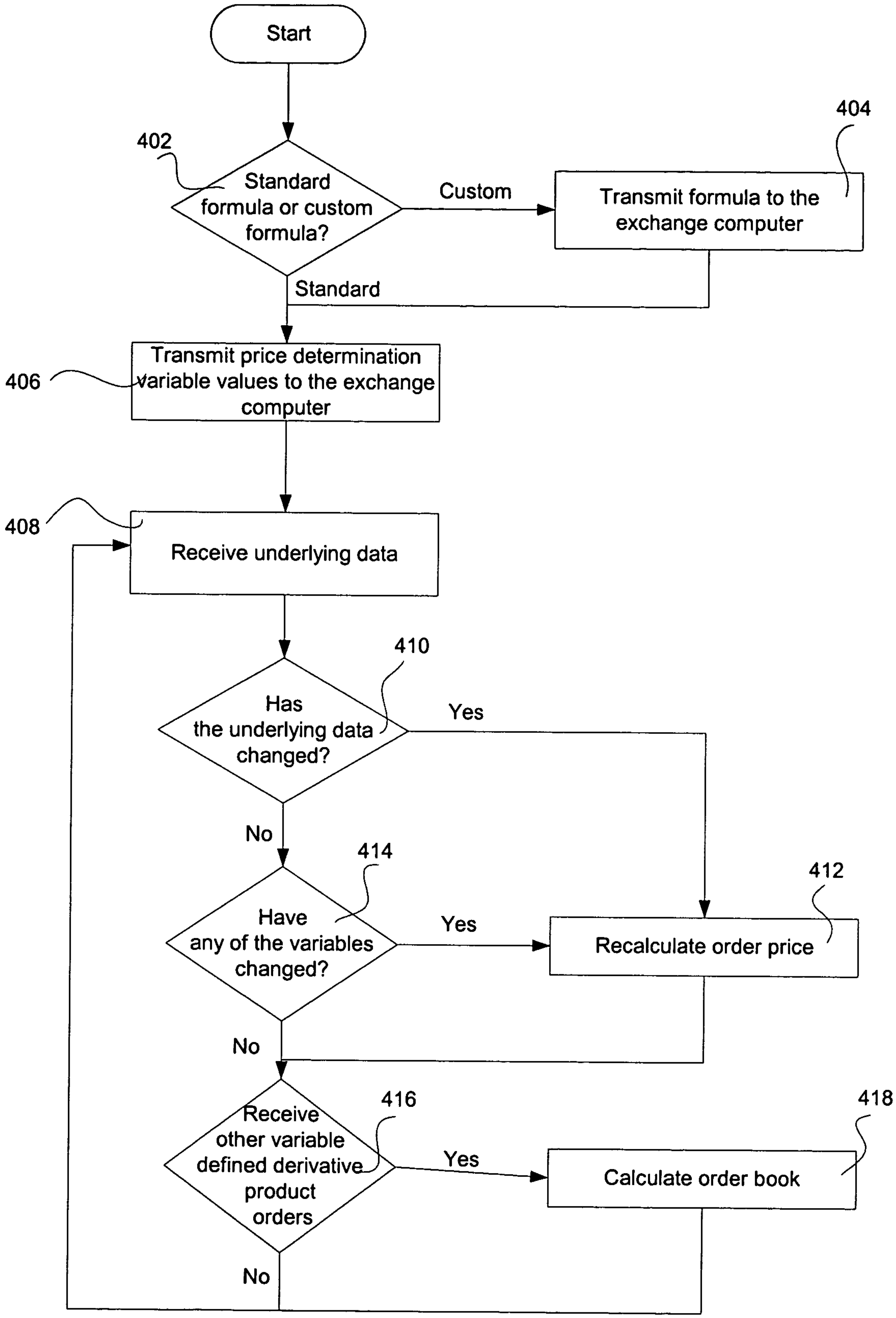

Start
402
Standard formula or custom formula?
Custom
404
Transmit formula to the exchange computer
Standard
406
Transmit price determination variable values to the exchange computer
408
Receive underlying data
410
Has the underlying data changed?
Yes
No
414
Have any of the variables changed?
Yes
412
Recalculate order price
No
416
Receive other variable defined derivative product orders
Yes
418
Calculate order book
No

Figure 4

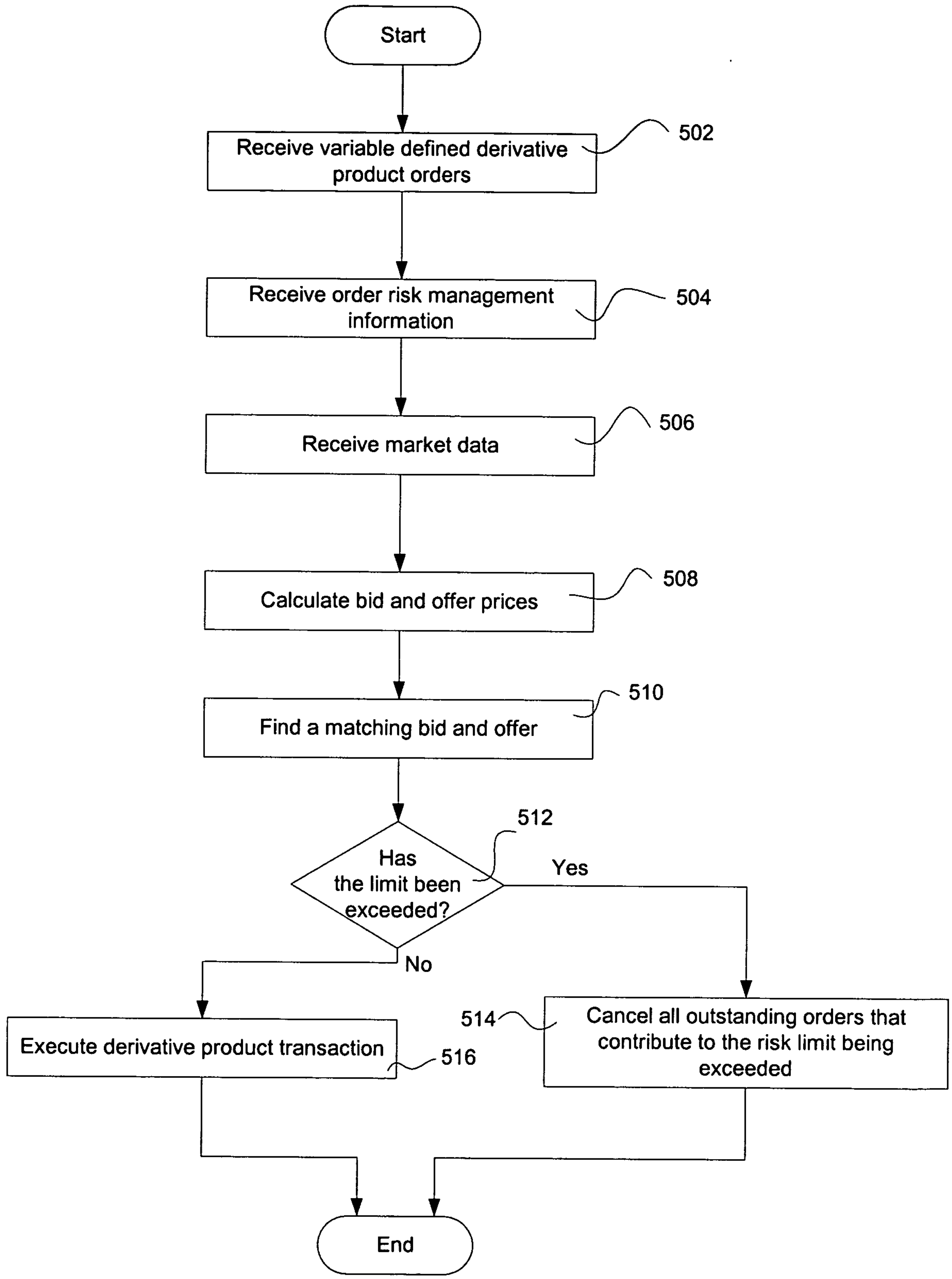

Start
Receive variable defined derivative product orders
502
Receive order risk management information
504
Receive market data
506
Calculate bid and offer prices
508
Find a matching bid and offer
510
Has the limit been exceeded?
512
Yes
No
Execute derivative product transaction
516
514
Cancel all outstanding orders that contribute to the risk limit being exceeded
End

Figure 5

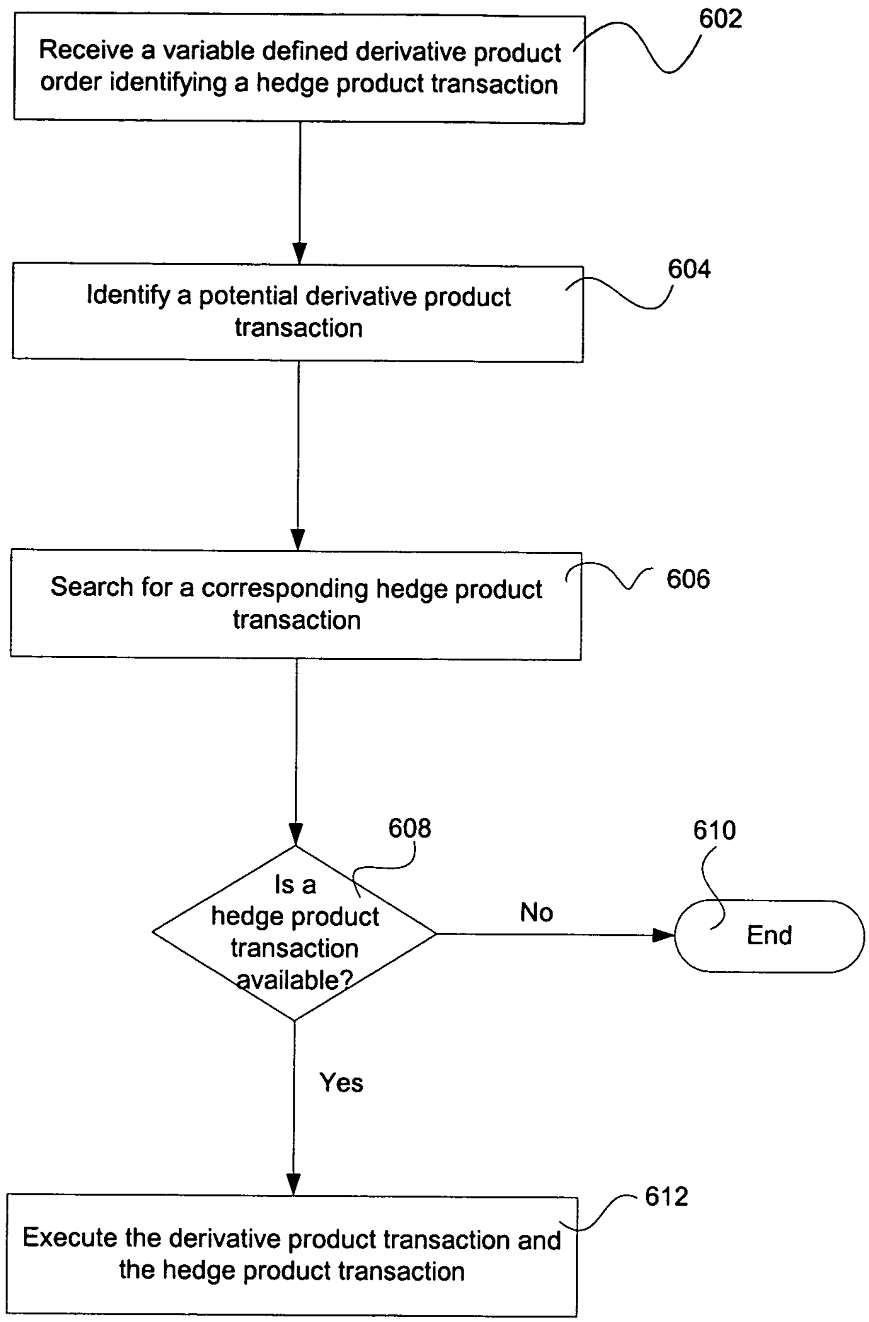


Figure 6

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DERIVATIVES TRADING METHODS THAT USE A VARIABLE ORDER PRICE AND A HEDGE TRANSACTION
Attorney Docket: 06119.00007
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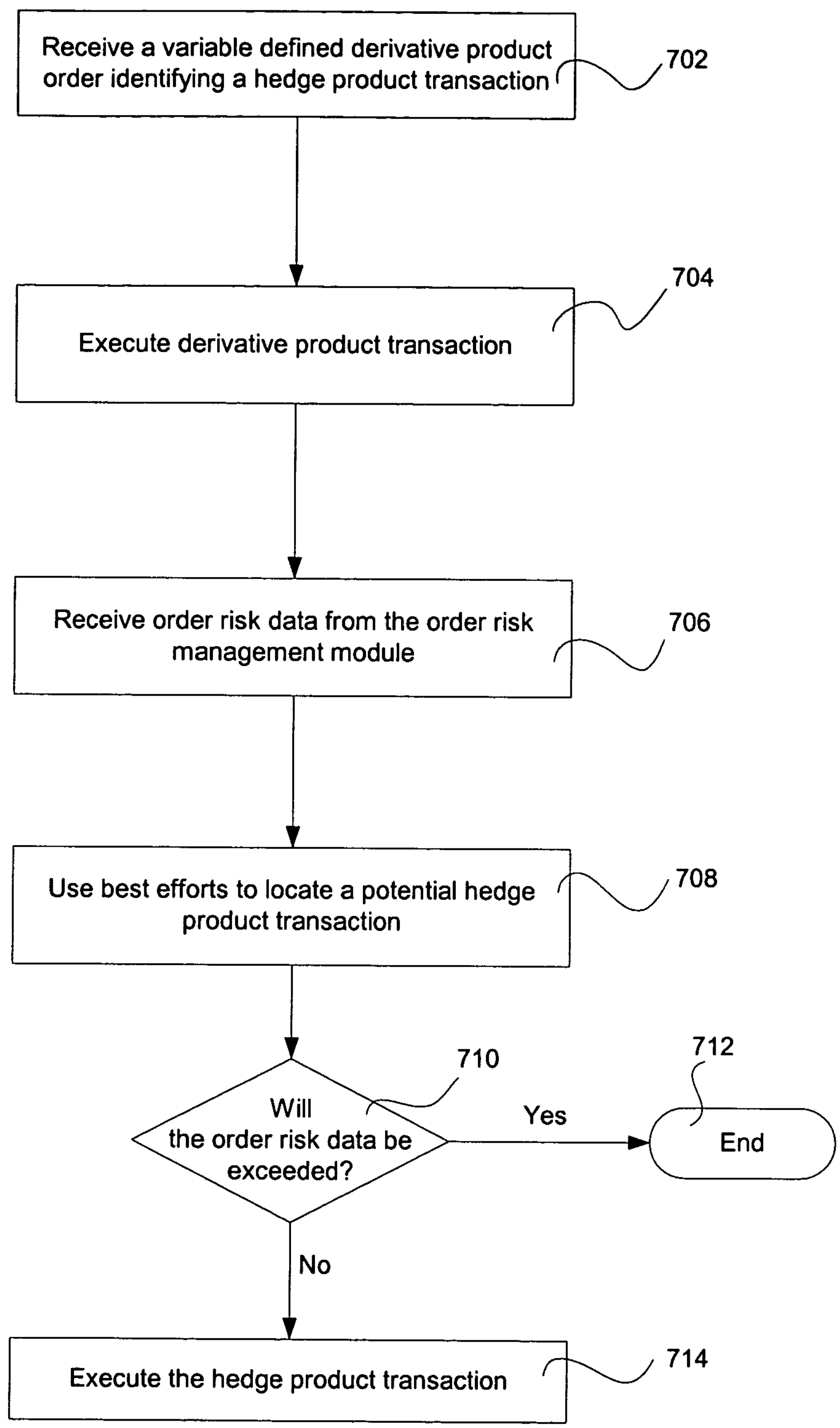
Receive a variable defined derivative product order identifying a hedge product transaction
702
Execute derivative product transaction
704
Receive order risk data from the order risk management module
706
Use best efforts to locate a potential hedge product transaction
708
Will the order risk data be exceeded?
710
Yes
End
712
No
Execute the hedge product transaction
714

Figure 7

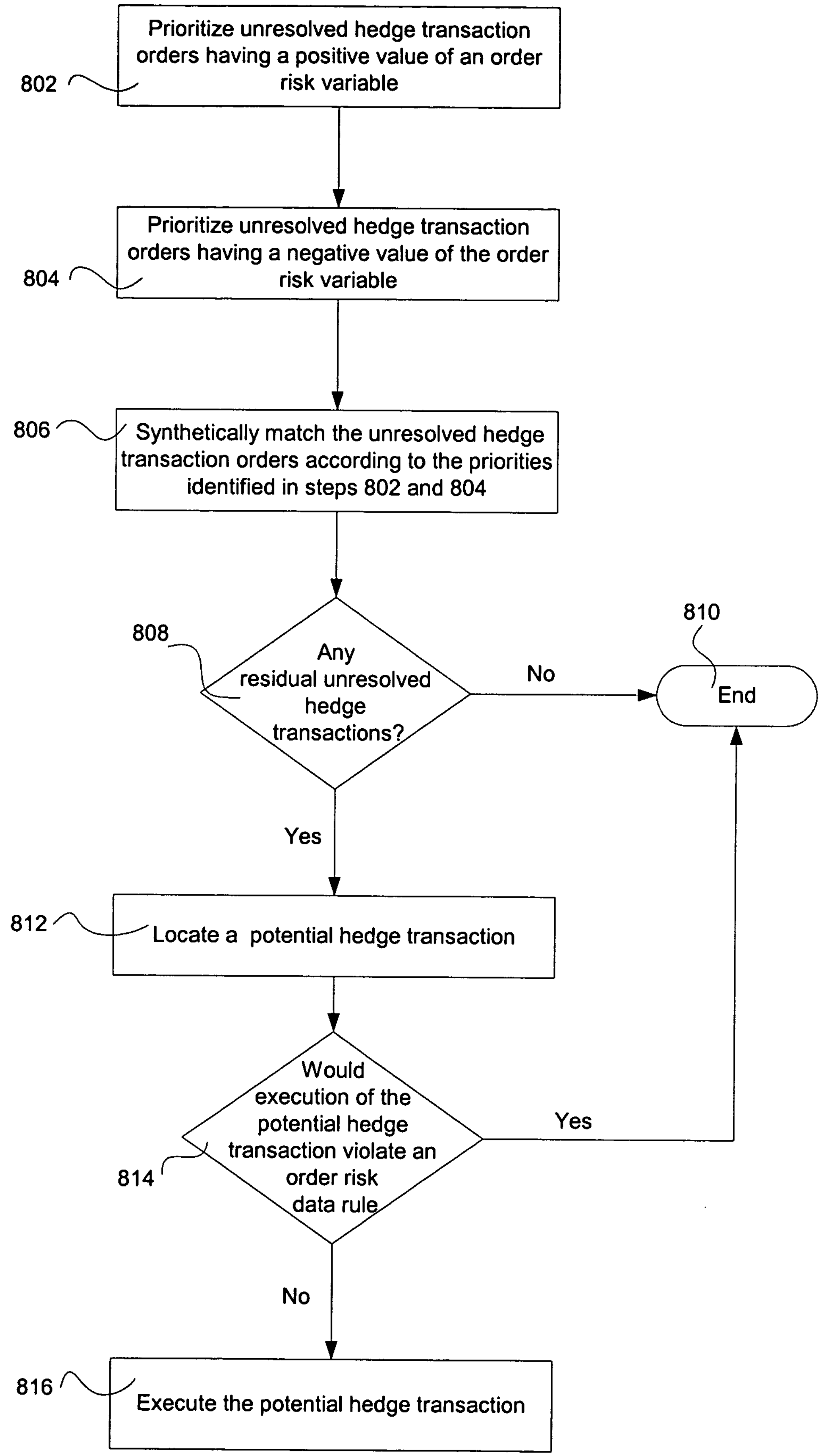
Prioritize unresolved hedge transaction orders having a positive value of an order risk variable
802
Prioritize unresolved hedge transaction orders having a negative value of the order risk variable
804
806
Synthetically match the unresolved hedge transaction orders according to the priorities identified in steps 802 and 804
808
Any residual unresolved hedge transactions?
No
810
End
Yes
812
Locate a potential hedge transaction
Would execution of the potential hedge transaction violate an order risk data rule
Yes
814
No
816
Execute the potential hedge transaction

Figure 8